

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION
CASE NO. 02- 571-KSF

Eastern District of Kentucky
FILED
DEC 30 2002
AT LEXINGTON
LESLIE G WHITMER
CLERK U S DISTRICT COURT

LEXMARK INTERNATIONAL, INC.

PLAINTIFF

v.

COMPLAINT

STATIC CONTROL COMPONENTS, INC.

DEFENDANT

Serve: Edwin H. Swartz, Registered Agent for
Service of Process for Static Control Components, Inc.
3010 Lee Avenue
Sanford, N.C. 27330

Serve: Edwin H. Swartz, in his capacity as an officer of
Static Control Components, Inc.
P.O. Box 152
Sanford, N.C. 27331

*** **

Plaintiff, Lexmark International, Inc., for its Complaint against Defendant, Static Control Components, Inc., states as follows:

NATURE OF THE ACTION

1. This is an action for injunctive relief for copyright violations arising under the Copyright Act, 17 U.S.C. § 101 *et seq.*, and for violations of the Digital Millennium Copyright Act, 17 U.S.C. § 1201 *et seq.*

THE PARTIES

2. Plaintiff Lexmark International, Inc. ("Lexmark") is a Delaware corporation with its principal business in Lexington, Kentucky. Lexmark is a leading worldwide developer, manufacturer, and supplier of, *inter alia*, laser printers and toner cartridges.

3. On information and belief, Defendant Static Control Components, Inc. ("Static Control"), a global corporation with hundreds of millions of dollars in revenue, is a North Carolina corporation with its principal place of business in Sanford, North Carolina. On information and belief, Static Control manufactures and sells components for remanufactured toner cartridges in numerous jurisdictions, including the Eastern District of Kentucky.

JURISDICTION AND VENUE

4. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. §§ 1331, 1338(a), and 17 U.S.C. § 1203(a) and has personal jurisdiction over Static Control. Moreover, venue in this judicial district is proper under 28 U.S.C. §§ 1391 and 1400(a).

LEXMARK'S COPYRIGHTED COMPUTER PROGRAMS AND ITS TECHNOLOGICAL MEASURE TO PREVENT UNAUTHORIZED ACCESS TO ITS COPYRIGHTED COMPUTER PROGRAMS

5. Since 1991, Lexmark has been a leading developer, manufacturer and supplier of printing solutions -- including laser printers, and their associated supplies and services. Lexmark develops and owns most of the technology for its laser printers and associated supplies, and that differentiates Lexmark from a number of its major competitors.

6. Lexmark's research and development activity for the past several years has focused on laser and inkjet printers, printer supplies, and network connectivity products. The process of developing new technology products is complex and requires innovative designs that anticipate customer needs and technological trends. Lexmark's research and development expenditures were \$246 million in 2001, \$217 million in 2000, and \$184 million in 1999.

7. Lexmark's intellectual property is one of its major assets and the ownership of the technology used in its products is important to its competitive position. As of the end of 2001, Lexmark holds approximately 1,500 patents worldwide and has approximately 1,100 pending patent applications worldwide covering a range of subject matter. Lexmark's patent strategy includes obtaining patents on key features of new products that it develops and patenting a range of inventions contained in new supply products such as toner cartridges for laser printers.

8. In 2001, estimated industry-wide revenue for printer hardware and associated supplies in the 1-50 pages per minute speed category, including monochrome (black) and color laser, inkjet and dot matrix printers, exceeded \$40 billion worldwide.

9. Lexmark's revenue is derived from United States and international sales, with United States sales making up slightly less than half of the company's consolidated revenue. Lexmark's products are sold in over 150 countries in North and South America, Europe, the Middle East, Africa, Asia, the Pacific Rim and the Caribbean. Lexmark's worldwide revenue in 2001 was \$4.143 billion.

10. The markets for printers and supplies are highly competitive. The laser printer market is dominated by the Hewlett Packard Company, which has a widely recognized brand name and has been estimated to have an approximate 50% market share. Several other large vendors such as Canon, Xerox, Brother and Minolta also compete in the laser printer market. In recent years, Lexmark and its principal competitors, many of which have significantly greater financial, marketing and/or technological resources than Lexmark, have regularly lowered prices on printers and are expected to continue to do so.

11. Lexmark is vulnerable to these pricing pressures which, if not mitigated by cost and expense reductions, may result in lower profitability and could jeopardize Lexmark's ability to grow or maintain market share and build an installed base of Lexmark printers.

12. Lexmark's strategy is based on a business model of building an installed base of printers that will then generate demand for Lexmark's printer supplies and services. Lexmark designs, manufactures, and distributes a variety of toner cartridges for use in its installed base of laser printers. Lexmark is currently the exclusive source for new printer toner cartridges for the printers it manufactures. The company's revenue and profit growth from its supplies business is directly linked to the company's ability to increase the installed base of its laser printers and customer usage of those printers.

13. In 1997, upon the initial introduction of the Lexmark Optra S laser printer family, Lexmark first announced its "Prebate" program to its customers allowing customers an up-front rebate when a customer purchased a toner cartridge for an Optra S laser printer in return for the customer's agreement to use the Prebate toner cartridge only once and return the used Prebate toner cartridge only to Lexmark for remanufacturing and/or recycling.

14. Lexmark's Prebate program is a printer toner cartridge discount program that features a free and easy way to return empty toner cartridges and allows the customer to avoid the hassles of traditional rebates. Lexmark provides packaging and postage for returning Prebate toner cartridges to Lexmark to support Lexmark's remanufacturing business.

15. Lexmark also offers customers the choice to purchase a "Regular" toner cartridge for those customers who do not choose the Prebate toner cartridge with its terms. Regular toner cartridges may be refilled by the purchaser or a third party after its initial use and are readily available for any customer to purchase.

16. In acquiring a Prebate toner cartridge, a customer agrees to certain license/agreement terms in return for a lower price or upfront rebate. The current Prebate terms placed across the top of every Prebate toner cartridge box in English and multiple non-English languages are as follows:

**RETURN EMPTY CARTRIDGE TO LEXMARK FOR
REMANUFACTURING AND RECYCLING**

Please read before opening. Opening this package or using the patented cartridge inside confirms your acceptance of the following license/agreement: This all-new cartridge is sold at a special price subject to a restriction that it may be used only once. Following this initial use, you agree to return the empty cartridge only to Lexmark for remanufacturing and recycling. If you don't accept these terms, return the unopened package to your point of purchase. A regular price cartridge without these terms is available.

17. The Prebate program has significantly increased toner cartridge returns to Lexmark allowing Lexmark the opportunity to participate in remanufacturing operations for these toner cartridges. Lexmark remanufactured toner cartridges for Lexmark printers are priced even lower than the corresponding Prebate toner cartridges and are a high quality alternative for customers desiring lower cost remanufactured toner cartridges.

18. The discount of the Prebate toner cartridge and the lower priced remanufactured toner cartridge allow Lexmark to vigorously compete in the printer market, where lifecycle price, including toner cartridges, is an important factor in the printer purchasing decision.

19. The Prebate program is pro-competitive, consistent with applicable laws, and environmentally beneficial.

20. Based on International Data Corporation's Hardcopy Peripherals Tracker, of all the brands and types of laser printers sold in the United States in 2001, only about 14.6 percent were Lexmark branded laser printers.

21. Of all the brands and types of cartridges sold in the United States in 2001, only about two and one-half percent were Lexmark Prebate toner cartridges based upon industry analyst CAP Ventures view of the total United States sales of all brands of toner cartridges.

22. Among the many products developed and marketed by Lexmark are its T520/522 and T620/622 laser printers and toner cartridges. Lexmark is the owner of valid copyright registrations covering computer programs that are used to control various operations of its T520/522 and T620/622 laser printers and to monitor operational characteristics of its toner cartridges.

23. The first set of these copyrighted computer programs are versions of Toner Loading Programs. One of the Toner Loading Programs is contained on a microchip located on the T520/522 toner cartridge, and the other Toner Loading Program is located on a microchip located on the T620/622 toner cartridge. The Toner Loading Programs are used to determine toner levels in the respective toner cartridges.

24. The second set of these copyrighted computer programs are versions of Printer Engine Programs that are used by the Lexmark printers to provide printer functionality. In particular, each Printer Engine Program is a mechanism control program that controls various operations of the printer including, for example, paper feed, paper movement, motor control, fuser operation, and voltage control for the electrophotographic (EP) system. A different Printer Engine Program is located on a controller board inside the Lexmark T520, T522, T620, and T622 laser printers.

25. The Toner Loading Programs and the Printer Engine Programs are original works of authorship owned by Lexmark and comprise copyrightable subject matter under the Copyright Laws of the United States.

26. Lexmark has complied in all respects with the Copyright Act, 17 U.S.C. § 101 *et seq.* and all other laws governing copyright, and has obtained Certificates of Registration for the Toner Loading Programs and the Printer Engine Program from the Register of Copyrights. True and correct copies of the registrations for the Toner Loading Programs and the Printer Engine Program for the T620 laser printers and toner cartridges are attached as Exhibits A, B, and C respectively. The Printer Engine Programs for the T520, T522, and T622 printers are derivative works of the Printer Engine Program for the T620 printer.

27. Lexmark utilizes a technological measure, or authentication sequence, to prevent unauthorized access to its Toner Loading Programs and Printer Engine Programs.

28. In general, the technological measure, or authentication sequence, requires a “secret handshake” between the printer and toner cartridge to enable printer functionality. The measure involves calculations by, and communication between, the printer and the toner cartridge each time a toner cartridge is installed in the printer, the printer is powered on, or whenever the printer is opened and then closed. Both the printer and the microchip on the toner cartridge calculate a code referred to as a Message Authorization Code (“MAC”). The microchip then communicates its calculated MAC to the printer. If the MAC calculated by the microchip matches the MAC calculated by the printer, the printer recognizes the toner cartridge as being authorized and printer functionality and access to the Toner Loading Program and Printer Engine Program is enabled.

29. By design, unless this authentication sequence or “secret handshake” takes place successfully, the printer will not recognize the toner cartridge as being an authorized Lexmark toner cartridge, and the printer will not print. The technological measure therefore prevents access to the Toner Loading Program and the Printer Engine Program. The technological measure thereby protects consumers to ensure that they are using genuine Lexmark toner cartridges.

**STATIC CONTROL’S COPYRIGHT INFRINGEMENT AND
CIRCUMVENTION OF THE TECHNOLOGICAL MEASURE
CONTROLLING ACCESS TO LEXMARK’S COPYRIGHTED PROGRAMS**

30. Static Control engages in the business of manufacturing and selling components to the toner cartridge remanufacturing industry, including replacement microchips for use with refilled toner cartridges.

31. Static Control recently began manufacturing and selling a new line of replacement microchips called "SMARTEK." Static Control's SMARTEK microchips are designed to enable unauthorized toner cartridges to function with Lexmark's T520/522 and T620/622 laser printers.

32. Static Control's SMARTEK microchips contain unauthorized copies of Lexmark's copyrighted Toner Loading Programs.

33. The toner cartridges for the Lexmark T520/522 and T620/622 printers are sold as Prebate toner cartridges and Regular toner cartridges. Each type of toner cartridge contains a microchip that calculates the MAC.

34. With regard to Prebate toner cartridges for the Lexmark T520/522 and T620/622 printers, to ensure that consumers return the Prebate cartridges to Lexmark after their initial use, the Prebate toner cartridge has been designed to no longer operate even if "refilled" with toner by operation of the microchip residing on the toner cartridge and software residing on the printer. Because Static Control's SMARTEK microchip is specifically designed to circumvent that technological measure, however, consumers can use the SMARTEK microchip to refill and reuse Prebate toner cartridges without returning those toner cartridges to Lexmark. Thus, Static Control's sale of its product enables consumers to obtain a Prebate toner cartridge at a significant discount without returning that toner cartridge to Lexmark for remanufacturing and recycling.

35. With regard to Regular toner cartridges for the Lexmark T520/522 and T620/622 printers, after its initial use, a Regular toner cartridge may be refilled by the purchaser or a third party. Upon use of a refilled Regular toner cartridge, the test page of the printer will contain information that would allow Lexmark or a customer to know if a refilled Lexmark cartridge is being used in the printer.

36. Unauthorized toner cartridges containing a SMARTEK microchip are able to function with Lexmark's T520/522 and T620/622 laser printers because each SMARTEK microchip contains a technology that circumvents Lexmark's technological measure, or authentication sequence.

37. In particular, the SMARTEK microchip's method of circumvention involves using technology that mimics the authentication sequence, or "secret handshake," performed by an original microchip on Lexmark's T520/522 or T620/622 toner cartridges and the printer. When an unauthorized toner cartridge containing a SMARTEK microchip is placed in a Lexmark T520/522 or T620/622 laser printer, when the printer containing such a cartridge is powered on, or whenever the printer is opened and closed, the SMARTEK microchip circumvents the technological measure that controls access to the Toner Loading Program and the Printer Engine Program.

38. By circumventing Lexmark's technological measure, the SMARTEK microchip enables printer functionality by providing access to Lexmark's Toner Loading Program and Printer Engine Program.

COUNT I
COPYRIGHT INFRINGEMENT

39. Lexmark re-alleges each and every allegation set forth in Paragraphs 1-38, inclusive, and incorporates them by reference herein.

40. As a cause of action and ground for relief, Lexmark alleges that Static Control has infringed and continues to infringe Lexmark's copyrights in the Toner Loading Programs by manufacturing and selling SMARTEK microchips that contain unauthorized, identical copies of Lexmark's copyrighted Toner Loading Programs.

41. Upon information and belief, Static Control's infringement of Lexmark's copyrights in the Toner Loader Programs has been and continues to be willful.

42. Lexmark has been and continues to be damaged by Static Control's actions and conduct. Further, if Static Control is not enjoined and is allowed to continue its present conduct, Lexmark will suffer irreparable injury, which cannot be adequately compensated by monetary damages. Lexmark is therefore entitled to injunctive relief.

COUNT II
DIGITAL MILLENNIUM COPYRIGHT ACT VIOLATIONS
RELATING TO LEXMARK'S TONER LOADING PROGRAMS

43. Lexmark re-alleges each and every allegation set forth in Paragraphs 1-42, inclusive, and incorporates them by reference herein.

44. Static Control has violated and continues to violate Lexmark's rights protected under 17 U.S.C. § 1201(a)(2)(A), (B), and (C) by manufacturing and selling SMARTEK microchips, which are designed and produced to circumvent the technological measure or "secret handshake" that controls access to Lexmark's copyrighted Toner Loading Programs. This section of the Digital Millennium Copyright Act is as follows:

No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that --

(A) is primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to a work protected under this title;

(B) has only limited commercially significant purpose or use other than to circumvent a technological measure that effectively controls access to a work protected under this title; or

(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing a technological measure that effectively controls access to a work protected under this title.

45. In particular, Static Control has violated and continues to violate Lexmark's rights protected under 17 U.S.C. § 1201(a)(2)(A), (B) and (C) because Static Control has manufactured and provided a technology, product, device, or component – namely, its SMARTEK microchip – that:

(a) is primarily designed or produced for the purposes of circumventing Lexmark's technological measure that effectively controls access to Lexmark's copyrighted Toner Loading Programs; or

(b) has only limited commercially significant purpose or use other than to circumvent Lexmark's technological measure that effectively controls access to Lexmark's copyrighted Toner Loading Programs; or

(c) is sold for use in circumventing the technological measure that controls access to Lexmark's copyrighted Toner Loading Programs.

46. Lexmark has been and continues to be damaged by Static Control's actions and conduct. Further, if Static Control is not enjoined and is allowed to continue its present conduct, Lexmark will suffer irreparable injury, which cannot be adequately compensated by monetary damages. Lexmark is therefore entitled to injunctive relief.

COUNT III
DIGITAL MILLENNIUM COPYRIGHT ACT VIOLATIONS RELATING
TO LEXMARK'S PRINTER ENGINE PROGRAMS

47. Lexmark re-alleges each and every allegation set forth in Paragraphs 1-46, inclusive, and incorporates them by reference herein.

48. Static Control has violated and continues to violate Lexmark's rights protected under 17 U.S.C. § 1201(a)(2)(A), (B) and (C) by manufacturing, marketing, distributing and selling SMARTEK microchips, which are designed and produced to circumvent the technological measure or "secret handshake" that controls access to Lexmark's copyrighted Printer Engine Programs.

49. In particular, Static Control has violated and continues to violate Lexmark's rights protected under 17 U.S.C. § 1201(a)(2)(A), (B) and (C) because Static Control has manufactured and provided a technology, product, device, or component – namely, its SMARTEK microchip – that:

(a) is primarily designed or produced for the purposes of circumventing Lexmark's technological measure that effectively controls access to Lexmark's copyrighted Printer Engine Programs; or

(b) has only limited commercially significant purpose or use other than to circumvent Lexmark's technological measure that effectively controls access to Lexmark's copyrighted Printer Engine Programs; or

(c) is sold for use in circumventing the technological measure that controls access to Lexmark's copyrighted Printer Engine Programs.

50. Lexmark has been and continues to be damaged by Static Control's actions and conduct. Further, if Static Control is not enjoined and is allowed to continue its present conduct, Lexmark will suffer irreparable injury, which cannot be adequately compensated by monetary damages. Lexmark is therefore entitled to injunctive relief.

RELIEF REQUESTED

Wherefore, Lexmark respectfully requests that:

A. This Court adjudge that Static Control's sale and manufacture of Static Control's SMARTEK microchips has infringed Lexmark's copyrights in its Toner Loading Programs in violation of the Copyright Laws of the United States, 17 U.S.C. § 101 *et seq.*

B. This Court adjudge that Static Control's manufacture and sale of Static Control's SMARTEK microchips has violated the Digital Millennium Copyright Act, 17 U.S.C. § 1201(a)(2)(A), (B) and (C).

C. Static Control, and all officers, directors, agents, servants, employees, affiliates, attorneys, successors, and assigns, and all persons in active concert or participation therewith, including but not limited to their customers, suppliers, contractors, sub-contractors, developers, distributors, retailers, any others to whom the SMARTEK microchips have been otherwise transferred by any means, and others that may become aware of such enjoinder and restraint, be preliminarily and permanently enjoined and restrained from infringing Lexmark's copyrights in its Toner Loading Programs, violating Lexmark's rights under the Digital Millennium Copyright Act, and/or continuing to sell, dispose of, transfer, develop or manufacture any devices, products, or components containing any works derived or copied from the Toner Loading Programs and/or any devices, products, or components primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to the Toner Loading Programs or the Printer Engine Programs.

D. Static Control, and all officers, directors, agents, servants, employees, affiliates, attorneys, successors, and assigns, and all persons in active concert or participation therewith, including but not limited to their customers, suppliers, contractors, sub-contractors, developers, distributors, retailers, any others to whom the SMARTEK microchips have been otherwise transferred by any means, and others that may become aware of such enjoinder and restraint, be required to deliver up for destruction all devices, products, or components, and any materials of any type (including computer media) containing any works derived or copied from the Toner Loading Programs and/or any products or components primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to the Toner Loading Programs or the Printer Engine Programs.

E. Static Control, and all officers, directors, agents, servants, employees, affiliates, attorneys, successors, and assigns, and all persons in active concert or participation therewith, including but not limited to their customers, suppliers, contractors, sub-contractors, developers, distributors, retailers, any others to whom the SMARTEK microchips have been otherwise transferred by any means, and others that may become aware of such enjoinder and restraint, be required to destroy all copies of the Toner Loading Programs or any works derived or copied therefrom on any computer, computer system, computer network or any machine or device capable of retaining or containing such programs owned by or in the possession of any of the foregoing.

F. Static Control, and all officers, directors, agents, servants, employees, affiliates, attorneys, successors, and assigns, and all persons in active concert or participation therewith, including but not limited to their customers, suppliers, contractors, sub-contractors, developers, distributors, retailers, any others to whom the SMARTEK microchips have been otherwise transferred by any means, and others that may become aware of such enjoinder and restraint, be enjoined and restrained from performing or practicing any process or method enabling them to infringe Lexmark's copyrights in its Toner Loading Programs, violate Lexmark's rights under the Digital Millennium Copyright Act, and/or continue to offer to sell, sell, dispose of, transfer, develop or manufacture any devices, products, or components containing any works derived or copied from the Toner Loading Programs and/or any products or components primarily designed or produced for the purpose of circumventing a technological measure that effectively controls access to the Toner Loading Programs or the Printer Engine Programs.

G. Static Control be directed to file with this Court and to serve upon Lexmark within fifteen (15) days after service of the injunction issued in this action, a written report under oath, setting forth in detail the manner of compliance with paragraphs C - F.

Respectfully submitted,

Dated: December 30, 2002

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